

Message Text

UNCLASSIFIED

PAGE 01 LONDON 14010 01 OF 03 301801Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 ICA-20 AID-05
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 MMO-01 AGRE-00 (ISO) W
-----027203 302041Z /43

P R 301749Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9574
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 14010

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 24 - 30

SUMMARY: THE JULY U.S. TRADE DEFICIT PRODUCED A FLURRY
OF ACTIVITY ON FOREIGN EXCHANGE MARKETS. BOTH FIXED AND
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 14010 01 OF 03 301801Z

INVENTORY INVESTMENT APPEAR TO HAVE STRENGTHENED IN THE
SECOND QUARTER. HIGHER INTEREST RATES FOR NATIONAL SAV-
INGS INSTRUMENTS HAVE BEEN ANNOUNCED. END SUMMARY.

1. FIXED AND INVENTORY INVESTMENT. PARTIAL DATA ON
FIXED AND INVENTORY INVESTMENT INDICATE A RISE FOR THE
SECOND QUARTER OF 1978. THE FIXED INVESTMENT DATA SHOW

AN OVERALL VOLUME RISE OF 1.6 PERCENT OVER THE FIRST QUARTER WHILE THE NARROWER MANUFACTURING SEGMENT ROSE 6.4 PERCENT. THE INCREASES OVER THE SECOND QUARTER OF 1977 ARE 8.2 AND 11.4 PERCENT, RESPECTIVELY. THESE FIGURES WHILE NOT CORRESPONDING PRECISELY TO THE GROSS FIXED INVESTMENT CATEGORY USED IN THE NATIONAL ACCOUNTS MAKE UP ABOUT 90

TO THE VIEW THAT THE FIRST QUARTER DECLINE IN MANUFACTURING INVESTMENT MAY BE A DEVIATION FROM THE TREND.

THE INVENTORY DATA SHOWS A POSITIVE ACCUMULATION SLIGHTLY LARGER THAN THE VERY BIG FIRST QUARTER TOTAL. THIS DATA IS LIMITED TO PRODUCERS AND WHOLESALERS. THE PROVISIONAL INCREASE IN THE VOLUME OF INVENTORIES DURING THE FIRST HALF OF 1978 ALONE IS NEARLY THREE QUARTERS AS GREAT AS THE ENTIRE RISE IN 1977. WITH INDUSTRIAL PRODUCTION IN THE FIRST HALF OF 1978 ONLY 1.1 PERCENT ABOVE ITS 1977 LEVEL, STOCK-OUTPUT RATIOS HAVE RETURNED TO 1975 PEAKS. THUS THE POTENTIAL EXISTS FOR AN INVENTORY CORRECTION DURING THE SECOND HALF OF 1978.

2. FOLLOWING LAST MONTH'S 50 MILLION-POUND NET WITHDRAWAL, THE GOVERNMENT HAS ANNOUNCED SEVERAL CHANGES DESIGNED TO ENCOURAGE GREATER USE OF THE VARIOUS SCHEMES OF THE NATIONAL SAVINGS MOVEMENT. THE OUTFLOW IN FACT REFLECTS THE REMOVAL OF FUNDS PLACED IN NATIONAL SAVINGS INVESTMENT ACCOUNTS LAST YEAR BY FINANCIAL INSTITUTIONS. LAST UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 14010 01 OF 03 301801Z

YEAR'S INFLOW WAS SO LARGE AS TO ENCOURAGE THE GOVERNMENT TO TAKE STEPS TO CUT FINANCIAL INSTITUTIONS' ACCESS TO THE NATIONAL SAVINGS. THE PROCEEDS OF THE NATIONAL SAVINGS SCHEMES ARE GENERALLY USED TO PURCHASE GOVERNMENT GILT-EDGED SECURITIES.

THE CURRENT CHANGES INCLUDE INCREASING THE INTEREST RATE ON NATIONAL SAVINGS BANK INVESTMENT ACCOUNTS FROM 8-1/2 TO 9-1/2 PERCENT FROM OCTOBER 1. THE MAXIMUM HOLDING OF THE INDEX-LINKED RETIREMENT ISSUE, WHICH PAYS 7.8 PERCENT PER YEAR, HAS BEEN ALSO RAISED FROM 500 POUNDS TO 700 POUNDS, WHILE A NEW 9-1/2 PERCENT FIVE-YEAR SAVINGS BOND (CARRYING A TAX-FREE 4 PERCENT BONUS PAID ON

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 14010 02 OF 03 301811Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 ICA-20 AID-05
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 MMO-01 AGRE-00 (ISO) W
-----027910 302101Z /47

P R 301749Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9575
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 02 OF 03 LONDON 14010

MATURITY) WILL BE ISSUED ON NOVEMBER 20. ANOTHER PRE-
MIUM SAVINGS BOND (A BOND OFFERING A CHANCE TO WIN A TAX-
FREE PRIZE AT A LOTTERY INSTEAD OF INTEREST) WILL BE IN-
TRODUCED.

3. ACTIVITY IN THE LONDON FOREIGN EXCHANGE MARKET WAS
VERY LOW UNTIL TUESDAY, REFLECTING LATE SUMMER LETHARGY
AND A LONG WEEKEND IN LONDON. THE ANNOUNCEMENT OF A \$2.9
BILLION U.S. TRADE DEFICIT BROUGHT EXCITEMENT INTO THE MAR-
KET, AND THE DOLLAR TUMBLED IN WHAT THE PRESS DESCRIBED
AS HECTIC TRADING. MARKET SOURCES ADDED, HOWEVER, THAT
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 14010 02 OF 03 301811Z

VERY LITTLE TRADING TOOK PLACE AS MARGINS ON DOLLAR DEALS
WIDENED SO FAR AS TO FORECLOSE RAPID TURNOVER OF DOLLARS.
STERLING'S GAIN IN ITS TRADE-WEIGHTED INDEX ON TUESDAY
WAS ALMOST ALL DUE TO THE DOLLAR'S FALL, AS CROSS RATES
AGAINST OTHER CURRENCIES CHANGED LITTLE AND IN DIVERSE
DIRECTIONS. WEDNESDAY'S TRADING WAS ALSO THIN, AND AL-
THOUGH STERLING SEEMED TO SLIP IN THE COURSE OF THE DAY,

MARKET SOURCES SUGGEST THERE WAS INSUFFICIENT VOLUME TO
SEE A TREND.

4. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	EXCHANGE (DEC. 1971 EQUALS 100)	GOLD (\$)
8/23	1.9270	62.2	200-3/8
8/24	1.9305	62.2	202-5/8
8/25	1.9270	62.2	198-3/8
8/28	MARKETS CLOSED		
8/29	1.9455	62.4	204-3/4 /
CHANGE 8/22-8/29 UP 0.0160 UP 0.2 DOWN 1-7/8			

5. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/23	- 0.48	- 1.32	- 2.45
8/24	- 0.37	- 1.25	- 2.37
8/25	- 0.38	- 1.25	- 2.41
8/28	MARKETS CLOSED		
8/29	- 0.35	- 1.22	- 2.32
CHANGE 8/22-8/29 UP 0.10 UP 0.05 UP 0.06			
(ALL FIGURES IN CENTS)			

6. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
UNCLASSIFIED			

UNCLASSIFIED

PAGE 03 LONDON 14010 02 OF 03 301811Z

8/23	7-13/16	8-1/2	9
8/24	8-13/16	8-9/16	8-15/16
8/25	8-11/16	8-5/8	8-15/16
8/28	MARKETS CLOSED		
8/29	8-3/8	8-7/8	8-13/16
CHANGE 8/22-8/29 UNCHANGED UNCHANGED DOWN 1/8			

7. THREE-MONTH LONDON INTERBANK -- EURODOLLAR INTEREST RATE DIFFERENTIAL

DATE	
8/23	15/16
8/24	3/4
8/25	11/16
8/28	MARKETS CLOSED
8/29	15/32
CHANGE 8/22-8/29 1/8	

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 14010 03 OF 03 301808Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 ICA-20 AID-05
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 MMO-01 AGRE-00 (ISO) W
-----027670 302057Z /47

P R 301749Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9576
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 03 OF 03 LONDON 14010

8. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/23	9-1/8	9-5/16	9-1/2
8/24	9-1/8	9-1/4	9-11/32
8/25	9-3/16	9-7/32	9-3/8
8/28	MARKETS CLOSED		
8/29	9-1/8	9-1/4	9-13/32

CHANGE 8/22-8/29 DOWN 1/32 DOWN 1/8 DOWN 5/32

9. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 14010 03 OF 03 301808Z

GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
8/23	11.52	12.57	12.79

8/24	11.51	12.58	12.79
8/25	11.50	12.58	12.79
8/28	MARKETS CLOSED		
8/29	11.51	12.58	12.79

CHANGE 8/22-8/29 DOWN 0.01 UP 0.01 UP 0.01

10. THE MINIMUM LENDING RATE REMAINED 10 PERCENT AS SET
JUNE 8.

11. THE TREASURY BILL RATE FELL 0.0662 PERCENT TO 8.8340
PERCENT AT FRIDAY'S TREASURY BILL AUCTION. THERE WERE
1,365 MILLION POUNDS IN BIDS, ONE OF THE LARGEST BIDS IN
SOME MONTHS, FOR THE 500 MILLION POUNDS IN BILLS OFFERED.
THIS WEEK 400 MILLION POUNDS IN BILLS WILL MATURE AS 600
MILLION POUNDS ARE OFFERED

STREATOR

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON14010
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USOECD AND USEEC
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780354-0849
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978089/aaaaahdi.tel
Line Count: 295
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ac4c9a67-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1812551
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 24 - 30 SUMMARY: THE JULY U.S. TRADE DEFICIT PRODUCED A FLURRY OF ACTIVITY ON FOREIGN EXCHANGE MARKETS. BOTH FIX
TAGS: ECON, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/ac4c9a67-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014